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SUBJECT: COSTA RICAN FISCAL TRANSPARENCY

REF: STATE 16737

¶1. SUMMARY. The GOCR is transparent with the management and conduct of its fiscal and financial affairs. The budgeting process is public and readily accessible by electronic means. The Minister of Finance directs the process with a commitment to real reform. Treasury's Office of Technical Assistance is an effective catalyst to the process with its assistance in the areas of tax administration, budgeting, debt management, and internal enforcement. A 2007 IMF report confirmed the fiscal transparency of Costa Rica's fiscal policies. End Summary.

¶2. In accordance with reftel, Post prepared the following report:

Begin Report

The current executive management of the Ministry of Finance is committed to improving the overall performance and enhancing the transparency of fiscal policy and administration. The Minister and the two Vice Ministers are eager to embrace reforms and believe in the public dissemination of information regarding the Finance Ministry's operations and annual budgets, a hallmark of transparency.

The GOCR publishes its annual budget in both hard copy and electronic formats for easy access. The budget incorporates all of the activities of the central government (composed of eighteen ministries, the national legislature, the judiciary, and the electoral tribune). Separate from the central government budget are the budgets for decentralized state institutions such as the state insurance entity, the state telecommunications and electrical utility, and the public universities. Each of these organizations publishes its own separate budget.

The GOCR budget provides an accurate and meaningful plan on how the government intends to allocate expenditures and to gain revenue. Typically, total actual expenditures and revenue will vary from the originally budgeted expenditures and revenue within a reasonable range of 5% to 10%. The Ministry of Finance normally proposes amendments to the budget during the fiscal year that do not significantly vary from the original projections.

In the accounting area, the National Accounting Department is currently undertaking an ambitious reform project to implement most of the International Public Sector Accounting Standards by 2009. Once achieved, this reform will greatly enhance the quality and quantity of information made available through the GOCR's annual

financial statements.

The Comptroller General of the Republic supervises all public spending, including those of decentralized institutions and government sponsored enterprises, for compliance with budgets and related rules and regulations. The Comptroller General publishes an annual evaluation of the GOCR's financial performance and position and issues an evaluation of the President's fiscal proposals during the budget formulation process, including a validation of the revenue estimates for the budget year. These and other key Comptroller General reports are published in hardcopy and are available on the Comptroller General's website.

The GOCR is committed to fiscal transparency as evidenced in the most recent budget approval process. The Finance Ministry developed a budget which included such advancements as the introduction of different budgeting scenarios (reflecting different spending priorities and the revenue consequences) and multi-year planning. As required by Costa Rica's constitution, the Ministry submitted the budget to the Legislative Assembly for mandated discussion during the month of November. The national legislature discussion focused on the social spending priorities, particularly education. The Legislative Assembly approved the budget before the end of the month, and the debate was openly reported on in the national newspapers.

The U.S. Department of Treasury offers assistance to the Costa Rican central government through its Office of Technical Assistance. Currently, OTA sponsors three advisory programs: tax policy and administration, budget policy and management, and government debt issuance and management. The first two programs yielded noteworthy results in 2007. Tax administration improved with revenue collection up nearly 30 percent. Budgeting reforms included spending scenarios to set national spending priorities, and the GOCR declared a budget surplus for the first time in 50 years. The Finance Ministry also launched an inspector general's unit. The tax and budget policy advisor programs introduced management systems designed to achieve specific objectives, with both programs tightening and strengthening overall management objectives, control, and execution. The third program, debt management, started in early 2008 and is too new to report results.

In addition to USG assistance, the GOCR received assistance from the Inter-American Development Bank (IDB) over the 2002-2005 period. The IDB provided assistance on CAFTA-DR and tax reform issues with benefits realized in education, health, environment, and energy. In 2007, IDB provided technical assistance to the GOCR in the areas of budget and program evaluation. The objective of this project was to improve the GOCR's ability to evaluate the effectiveness of the use of public resources and to communicate such information to the public and other stakeholders, including the Legislative Assembly and the Comptroller General.

The World Bank has also been providing Costa Rica technical assistance in debt management through its FIRST initiative. The initiative includes a transparency component, encouraging better communication of funding plans and debt strategy. The OTA debt program is coordinating some of its efforts with the FIRST initiative.

In addition, the International Monetary Fund (IMF) completed a study in 2007 entitled Report on Observance of Standards and Codes - Fiscal Transparency Module (IMF Country Report No. 07/372, November 2007). Key findings from the report included:

- "The (Costa Rican) budget process is well specified and publicized."
- Government responsibilities are "clearly specified," with the Central Bank of Costa Rica and Comptroller's General office operating independently.

- The GOCR has made "significant progress in centralizing and improving debt and cash management, updating accounting norms, and upgrading the data management systems."
- Cross-government institutional responsibilities need further clarification in order "to avoid duplication" and "improve coordination."

- Future reforms in the budgeting process need to include "integrating government autonomous institutions into the budget, developing priorities for the "evaluation and approval of investment projects," and "eliminating earmarked spending mandates."

The IMF's findings lauded the public access to information; the independence of the Finance Ministry, Central Bank, and Comptroller's General office; and the overall transparency. The IMF, however, recommended that the GOCR focus on improving the mechanics of governance.

End Report

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COMMENT

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13. Costa Rica has experienced significantly lower levels of corruption than other countries in the region, with greater fiscal transparency as one of the underlying explanations. Minister of Finance Guillermo Zuniga seeks continued improvements, however. His willingness to make positive changes, coupled with the effectiveness of Treasury's Office of Technical Assistance, has created an environment conducive to real fiscal and financial reform. This partnership has been a win-win for the GOCR and the USG.

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